

STATE OF MONTANA

OFFICES OF THE GOVERNOR AND
LIEUTENANT GOVERNOR

Report on the Examination of Financial Statements
Two Fiscal Years Ended June 30, 1980



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LIEUTENANT GOVERNOR

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Two Fiscal Years Ended June 30, 1980

TABLE OF CONTENTS

	<u>Page</u>
Elected and Administrative Officials	ii
Summary of Recommendations	iii
Comments:	
Introduction	1
General	1
Internal Control	4
Federal Grants	5
Economic Development Loans	9
Cash Restatement	12
Property, Plant and Equipment	12
Prior Audit Recommendations	14
Scope of Examination and Opinion	15
Financial Statements:	
Combined Balance Sheets June 30, 1980	19
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Fiscal Year Ended June 30, 1979	20
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Fiscal Year Ended June 30, 1980	21
Notes to Financial Statements	22
Schedule of Federal Grants	27
Schedule of Questioned Costs	29
Agency Replies	30

ELECTED AND ADMINISTRATIVE OFFICIALS

OFFICES OF THE GOVERNOR AND
LIEUTENANT GOVERNOR

Ted Schwinden

Governor

George Turman

Lieutenant Governor

David Lewis

Director, Office of Budget and
Program Planning

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Offices of the Governor and Lieutenant Governor and Department of Administration are included in the back of this report.

	<u>Page</u>
1. Include Circular A-102, Attachment P audit requirements in agreements with subgrantees.	6
<u>Agency Reply:</u> Concur. See page 31.	
2. Comply with grant report requirements.	7
<u>Agency Reply:</u> Concur. See page 31.	
3.A Obtain clarification from the federal grantor agency concerning the allowability of personal service expenditures charged to the PIP Grant.	8
<u>Agency Reply:</u> Concur. See page 31.	
3.B Work with subgrantees to ensure that adequate documentation of the allowability of costs charged to grants is maintained.	8
<u>Agency Reply:</u> Concur. See page 31.	
4.A Seek continuing appropriations for loan program funds.	10
<u>Agency Reply:</u> Concur. See page 31.	
4.B The Department of Administration develop appropriation control of asset accounts on SBAS.	10
<u>Department of Administration Reply:</u> Partially concur. See page 33.	
5.A Implement procedures to assure timely collection of and maintain adequate control over notes receivable.	11
<u>Agency Reply:</u> Concur. See page 32.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
5.B Develop procedures for determining the collectibility of receivables and write off and transfer to the Department of Revenue the uncollectible accounts.	11
<u>Agency Reply:</u> Concur. See page 32.	
6. Review and evaluate the necessity of restating cash transactions made during the fiscal year-end adjustment period.	12
<u>Agency Reply:</u> Concur. See page 32.	
7. Record the mansion on its fixed asset records.	13
<u>Agency Reply:</u> Partially concur. See page 32.	
8.A Complete the conversion to PAMS.	14
<u>Agency Reply:</u> Concur. See page 32.	
8.B Work with the Department of Administration to record lease purchases in accordance with generally accepted accounting principles.	14
<u>Agency Reply:</u> Concur. See page 32.	
8.C The Department of Administration revise PAMS regulations and instruct agencies to record lease-purchases in accordance with generally accepted accounting principles.	14
<u>Department of Administration Reply:</u> Concur. See page 33.	

COMMENTS

INTRODUCTION

We performed a financial/compliance audit of the Offices of the Governor and the Lieutenant Governor for the two fiscal years ended June 30, 1980. The objectives of the audit were to: (1) determine if the offices' financial statements present fairly their financial position and results of operations for the two fiscal years ended June 30, 1980, (2) determine if the offices complied with applicable laws and regulations, (3) make recommendations for the improvement in the management and internal controls of the offices, (4) perform a review of the offices' system of accounting for federal grants, and (5) determine whether financial reports to the federal government contain accurate and reliable data.

We thank the Governor, Lieutenant Governor and their staffs for their cooperation and assistance during our audit.

GENERAL

The Governor's Office was created upon acceptance of Montana into the Union in 1889, and exists under authority contained in Article VI of the Montana Constitution. The office seeks to oversee and direct the activities of the executive branch agencies in a manner which will ensure responsible and responsive government for the people of Montana.

The Governor has constitutional and statutory authority to administer the affairs of the state of Montana; assure that the laws of Montana are faithfully executed; appoint all military and civil officers of the state whose appointments are provided for by statute or by the constitution; approve legislation; report to the

legislature on the condition of the state; submit a biennial executive budget; grant reprieves and pardons within the best interests of Montana; serve on various boards and commissions as provided by the constitution and statutes; and represent the state in relations with other governments, with the public, and with various organizations of states.

The following paragraphs discuss the functions of the various programs administered by the Offices of the Governor and the Lieutenant Governor.

Lieutenant Governor

The Lieutenant Governor's Office is provided for in Article VI, Section 4, of the Constitution of Montana. The Lieutenant Governor is responsible for performance of those duties prescribed by law and those delegated to him by the Governor.

Mental Disabilities Board of Visitors

The Mental Disabilities Board of Visitors, established by the Legislature in 1975, is charged by law with reviewing patient care at Montana's institutions and community health centers for the mentally ill and the mentally retarded.

Office of Budget and Program Planning

The Office of Budget and Program Planning (OBPP) assists the Governor in the planning, preparation, and administration of the state budget, the development and evaluation of alternative program plans for the provision of state government services, and the examination and improvement of methods of providing services to the citizens of the state of Montana.

OBPP provides centralized services support for all the programs of the Governor's Office and the Lieutenant Governor's Office, prepares and monitors estimates of revenue, houses the state clearinghouse provided in the federal Office of Management and Budget Circular A-95, establishes guidelines and priorities for data processing services, and approves procurement of data processing equipment for Montana state government.

Citizens' Advocate Office

The Citizens' Advocate Office is responsible for making state government more responsive and accessible to the citizens of Montana by receiving and seeking resolution of their complaints, problems, and inquiries regarding state government.

Legal Jurisdiction Project

The Legal Jurisdiction Project exists to research jurisdictional differences between the state and tribal entities.

Office of Commerce and Small Business Development

The Governor's Office of Commerce and Small Business Development is authorized to:

- Assist the Governor in developing and implementing state economic policy planning.
- Develop programs capable of assisting state businesses with technical assistance to maintain existing jobs and create new ones, particularly in the primary industries.
- Accomplish economic development planning, particularly for areas impacted by rapid growth or severe deterioration.

Economic Development Project

The Economic Development Project is administered by the Office of Commerce and Small Business Development and is respon-

sible for the review of applications for business loans sponsored by the federal Economic Development Administration and the administration and issuance of community technical assistance grants.

Mansion Maintenance

The Governor's Mansion is authorized as the executive residence in the city of Helena for the use of the Governor of the state.

INTERNAL CONTROL

As part of our examination we made a study and evaluation of the system of internal accounting control used by the Offices of the Governor and the Lieutenant Governor to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our study and evaluation of the offices' system of internal accounting control for fiscal years 1979 and 1980 would not necessarily disclose all weaknesses in the system of internal accounting

control because it was based upon selective tests of accounting records and related data. However, our study and evaluation disclosed conditions that we believe to be weaknesses in the internal accounting controls established by the Offices of the Governor and Lieutenant Governor and their compliance with those controls. We discuss these weaknesses in the following sections.

FEDERAL GRANTS

Introduction

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of Management and Budget Circular A-102, Attachment P. This circular provides for audits of financial operations, including compliance with certain provisions of federal law and regulations.

The Governor's Office received grants from the various federal agencies indicated on the Schedule of Federal Grants on pages 27-28. We reviewed a sample of these grants to determine whether reported costs were allowable and reasonable and whether grant terms were complied with. To comply with Economic Development Administration (EDA) audit requirements, a separate audit was conducted for the EDA section 302(a) Planning Grant and a separate audit report issued in accordance with the EDA 302(a) audit guide.

Instances of non-compliance for tested items are discussed below. Nothing came to our attention indicating possible non-compliance in items not tested.

Audit Requirements

The Office of Management and Budget (OMB), Circular A-102, Attachment P, became effective October 22, 1979. The circular states, "Recipients (of federal assistance) shall require subrecipients that are state and local governments or Indian tribal governments to adopt the (audit) requirements in (Circular A-102, Attachment P)." The Governor's Office is responsible for ensuring that audit reports for subrecipients are received as required.

Failure to comply with OMB requirements could be a basis for future denial of federal funds. Therefore, the Governor's Office should inform its subgrantees concerning these audit requirements and ensure compliance with the circular by obtaining copies of all required audit reports.

RECOMMENDATION #1

WE RECOMMEND THAT THE GOVERNOR'S OFFICE INCLUDE CIRCULAR A-102, ATTACHMENT P AUDIT REQUIREMENTS IN AGREEMENTS WITH SUBGRANTEES.

Reporting Requirements

The Governor's Office did not comply with the reporting requirements for two of the three grants we reviewed. Five of seven quarterly reports for the Public Investment Plan (PIP) Grant and four of eight quarterly reports for the the EDA 302(a) Planning Grant were submitted to the federal grantor agency after the report deadlines. The annual PIP report for 1980 is late as it was for 1979.

These grants are advance funded, therefore the quarterly reports are also requests for funds for the next quarter. Late reporting has caused cash flow problems requiring the Governor's Office to obtain interentity loans.

Some of the quarterly reports for the PIP Grant did not include the projection of anticipated costs and a statement of work accomplished as required by federal regulations.

RECOMMENDATION #2

WE RECOMMEND THAT THE GOVERNOR'S OFFICE COMPLY WITH GRANT REPORTING REQUIREMENTS.

Questioned Costs

Costs charged to grants which are unallowable according to Federal Management Circular (FMC) 74-4 or the grant provisions and costs which are not adequately documented are considered questioned costs. The final disposition of these questioned costs is up to the federal grantor agencies. The following paragraphs are an explanation of amounts shown on the Schedule of Questioned Costs on page 29.

The questioned amount for the PIP is the entire salary and benefits paid to the Old West Regional Commission coordinator for fiscal years 1979 and 1980. This amount is questioned because the coordinator's responsibilities include several other grants in addition to the PIP grant, and advising the Governor and Lieutenant Governor on economic development in Montana.

The Poplar River Project was subgranted to various state agencies. We examined records at the Department of Fish, Wildlife and Parks and the Department of Health and Environmental Sciences who received the largest share of the grant money. Amounts were questioned for this project due to inadequate documentation by the Department of Fish, Wildlife and Parks to determine allowability of the costs.

The EDA Planning Grant costs are questioned because of budget overruns and inadequate documentation. The Department of Community Affairs (DCA) contracted with the Office of Commerce and Small Business (OCSB) to provide services for the EDA 302(a) Planning Grant. Costs relating to these services were charged to OCSB by DCA based on an allocation process. The allocation process was not documented and we could not determine whether the amount charged was actually incurred and allowable. The OCSB should require DCA to submit itemized billings for costs incurred. A separate report has been issued for this grant giving more detailed explanations of these problems.

RECOMMENDATION #3

WE RECOMMEND THAT THE GOVERNOR'S OFFICE:

- A. OBTAIN CLARIFICATION FROM THE FEDERAL GRANTOR AGENCY CONCERNING THE ALLOWABILITY OF PERSONAL SERVICE EXPENDITURES CHARGED TO THE PUBLIC INVESTMENT PLAN GRANT.
- B. WORK WITH SUBGRANTEES TO ENSURE THAT ADEQUATE DOCUMENTATION OF THE ALLOWABILITY OF COSTS CHARGED TO GRANTS IS MAINTAINED.

ECONOMIC DEVELOPMENT LOANS

The Office of Commerce and Small Business Development (OCSB) issues loans under the Federal Economic Development Administration (EDA) Section 304 Grant and Loan Program. The EDA provides 75% of the loan proceeds and the state provides a 25% match. These loans are made to high risk companies within Montana. Two loans were outstanding during our audit period.

Loan Expenditures

Expenditures of \$120,000 were recorded at fiscal year-end 1980 in the Federal and Private Revenue Fund and \$30,000 in the General Fund for loans for which OCSB had made preliminary commitments. Similar entries were made at fiscal year-end 1979 for \$189,850 in the Federal and Private Revenue Fund and \$57,150 in the General Fund.

According to generally accepted accounting principles, loans should be recorded by the lender as receivables, not expenditures, when the loan transaction is complete. Therefore, expenditures are overstated in both fiscal years 1979 and 1980.

Revenue

Revenues expected to be received from EDA were accrued for \$189,850 in fiscal year 1979 and \$120,000 in fiscal year 1980 based on the preliminary loan commitments discussed above. This overstated both revenues and Federal Cost Reimbursement Receivables at those dates.

The office records money received from the federal government for the loan program as revenue. After the money has been loaned and subsequently paid back in monthly installments, it is again recorded as revenue. The result is an overstatement of

revenue. Generally accepted accounting principles require loans to others to be recorded as receivables and subsequent payment be recorded as a reduction of the receivable.

Discussion

The misstatement of expenditures and revenues occurred for two reasons. First, the loan program is operated from the Federal and Private Revenue Fund. Section 17-8-101, MCA, requires that "monies deposited in the general fund, the earmarked revenue fund, and the federal and private revenue fund . . . shall be paid out of the treasury only on appropriation made by law."

Secondly, because amounts for the loan program were appropriated by the Legislature, an expenditure must be recorded against the appropriation or the spending authority will revert at fiscal year-end. If continuing appropriations were obtained, this problem would not exist.

Appropriation control for asset accounts would eliminate the requirement to record expenditures when loans funds are disbursed. Department of Administration officials are currently planning to develop appropriation control for asset accounts.

RECOMMENDATION #4

WE RECOMMEND THAT:

- A. THE GOVERNOR'S OFFICE SEEK CONTINUING APPROPRIATIONS FOR LOAN PROGRAM FUNDS.
- B. THE DEPARTMENT OF ADMINISTRATION DEVELOP APPROPRIATION CONTROL OF ASSET ACCOUNTS ON SBAS.

Collection Procedures

The collection procedures established by the OCSB for these loans are not adequate.

The collectibility of one \$75,000 loan made by the office in October 1978 is questionable. The payments are due monthly and no payments have been received since January 1980. The office was not aware of the default in payments until late October 1980. We were unable to confirm the above note with the debtor which also indicates that collection by the Governor's Office is doubtful.

The Montana Operations Manual, Section 2-1150, provides for the Department of Revenue to collect bad debts for the state. The Montana Operations Manual, Section 2-1151.10, states that an agency must document criteria for determining uncollectibility of receivables before turning them over to the Department of Revenue.

RECOMMENDATION #5

WE RECOMMEND THAT THE GOVERNOR'S OFFICE:

- A. IMPLEMENT PROCEDURES TO ASSURE TIMELY COLLECTION OF AND MAINTAIN ADEQUATE CONTROL OVER NOTES RECEIVABLE.
- B. DEVELOP PROCEDURES FOR DETERMINING THE COLLECTIBILITY OF RECEIVABLES AND WRITE OFF AND TRANSFER TO THE DEPARTMENT OF REVENUE THE UNCOLLECTIBLE ACCOUNTS.

CASH RESTATEMENT

Cash transactions made during the fiscal year-end adjustment period, which are not corrections of errors existing at June 30, should be reversed and recorded as accounts payable in order to reflect the actual June 30 cash balance on the Balance Sheet. Transfer Warrant Claims and payroll No-Warrant Transfers processed during the adjustment period are automatically restated. The agency must restate other types of expenditure documents (non-payroll No Warrant Transfers, Journal Vouchers and Distribution Vouchers).

The Governor's Office did not review documents which were not automatically restated and did not properly restate certain transactions. The accompanying financial statements have been adjusted to fairly present the cash balance.

RECOMMENDATION #6

WE RECOMMEND THAT THE GOVERNOR'S OFFICE REVIEW AND EVALUATE THE NECESSITY OF RESTATING CASH TRANSACTIONS MADE DURING THE FISCAL YEAR-END ADJUSTMENT PERIOD.

PROPERTY, PLANT AND EQUIPMENT

Governor's Mansion

The Governor's Office has control of and responsibility for the Governor's Mansion. The office receives an appropriation and incurs expense for maintenance costs of the mansion. However, the mansion, which cost \$201,529, is not recorded as a fixed asset

by the Governor's Office as recommended in our prior audit report.

The Montana Operations Manual, Section 2-1700.40, states that the Property Accountability Management System (PAMS) was established in order to assign "responsibility for custody and proper use of specific property with individual public officials" and to provide "data essential to the proper management of property." These objectives and benefits of PAMS are not being accomplished while the Governor's Mansion is excluded from the Governor's Office fixed asset ledgers.

RECOMMENDATION #7

WE RECOMMEND THAT THE GOVERNOR'S OFFICE RECORD THE MANSION ON ITS FIXED ASSET RECORDS.

Leased Equipment

Fixed assets bought by the Governor's Office under lease-purchase agreements are listed on the Property Accountability Management System (PAMS) at the amount of principal payments made to date. Generally accepted accounting principles require that such assets and their related contract obligations be recorded at full purchase price at the inception of the lease-purchase agreement. Consequently, the PAMS inventory amount of \$168,158 is understated by \$32,017.

The Governor's Office utilizes PAMS, but still maintains a duplicate inventory system in order to accurately record fixed assets bought under lease-purchase agreements. The conversion to PAMS was not complete and accurate. The amounts transferred

to PAMS were not reconciled to the office's own system so errors were not noted and corrected.

The fixed asset amount presented in the accompanying financial statements is from the office's internal inventory system.

RECOMMENDATION #8

WE RECOMMEND THAT:

- A. THE GOVERNOR'S OFFICE COMPLETE THE CONVERSION TO PAMS.
- B. THE GOVERNOR'S OFFICE WORK WITH THE DEPARTMENT OF ADMINISTRATION TO RECORD LEASE-PURCHASES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.
- C. THE DEPARTMENT OF ADMINISTRATION REVISE THE PAMS REGULATIONS AND INSTRUCT AGENCIES TO RECORD LEASE-PURCHASES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

PRIOR AUDIT RECOMMENDATIONS

Our previous audit of the office for the fiscal year ended June 30, 1978 contained 17 recommendations. The office has implemented 12 of these recommendations and partially implemented the remaining five. In those cases where prior recommendations are still applicable they have been repeated in the appropriate sections of this report.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122



JAMES H. GILLET, C.P.A.
ACTING LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Combined Balance Sheets of the various funds and account groups of the Offices of the Governor and Lieutenant Governor as of June 30, 1980 and the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual of such funds for the two fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, the General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions," and "Guidelines for Financial and Compliance Audits of Federally Assisted Programs" and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Governor's Office accrued expenditures and revenues and recorded receivables due from the federal government relating to a loan program. Generally accepted accounting principles require that disbursements to make loans be recorded as receivables and not as expenditures. Because of these errors, expenditures and revenue for fiscal year 1979 are overstated by \$189,850 in the Federal and Private Revenue Fund. Expenditures and revenue in

the Federal and Private Revenue Fund for fiscal year 1980 are overstated by \$120,000 and accrued expenditures and withdrawals at June 30, 1980 are overstated by \$30,000 in the General Fund and \$120,000 in the Federal and Private Revenue Fund. Federal Cost Reimbursement Receivable is overstated by \$120,000 in the Federal and Private Revenue Fund at June 30, 1980.

The Governor's Mansion, which cost \$201,529, is not included in the property accounting records maintained by the Offices of the Governor and Lieutenant Governor. This results in a \$201,529 understatement in the General Fixed Assets Group of Accounts.

In our opinion, because of the effect of the items discussed in paragraphs two and three, the statements listed below do not present fairly, in accordance with generally accepted accounting principles, the financial position of such funds and account groups of the Offices of the Governor and Lieutenant Governor as of June 30, 1980 or the results of operations and changes in fund balance of such funds for the two years then ended.

<u>Statement Name</u>	<u>Funds Not Fairly Presented</u>	<u>Fiscal Year Ended</u>
Balance Sheets	General Fund	June 30, 1980
	Federal and Private Revenue Fund	June 30, 1980
	General Fixed Assets Group of Accounts	June 30, 1980
Combined Statement of Revenues, Expenditures and Changes in Fund Balance	Federal and Private Revenue Fund	June 30, 1980
		June 30, 1979

In our opinion the statements listed below present fairly the financial position of such funds of the Offices of the Governor and

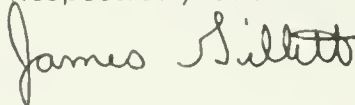
Lieutenant Governor as of June 30, 1980 and the results of operations and changes in fund balance of such funds for the two years then ended, in conformity with generally accepted accounting principles which, except for the change in the method of restating cash as discussed in Note 4 to the financial statements, and the change in accounting for federal grants from the cash basis to the modified accrual basis, as discussed in Note 8 to the financial statements, have been applied on a consistent basis.

<u>Statement Name</u>	<u>Funds Fairly Presented</u>	<u>Fiscal Year Ended</u>
Balance Sheet	Federal and Private Grant Clearance Fund	June 30, 1980
Combined Statement of Revenue, Expenditures and Changes in Fund Balance	General Fund	June 30, 1980 June 30, 1979

The accompanying Schedule of Questioned Costs and Schedule of Federal Grants are not necessary for a fair presentation of the financial statements, but are presented as a result of our review of the specified grants in accordance with the above mentioned "Guidelines for Financial and Compliance Audits of Federally Assisted Programs." The accompanying "Totals (Memorandum Only)" columns on the Combined Statements of Revenues, Expenditures, and Changes in Fund Balance are not necessary for a fair presentation of the financial statements but are presented as supplemental information. This information has been subjected to the tests and other auditing procedures applied in our examination of the financial

statements and in our opinion, except for those matters noted in paragraph two, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James H. Gillett". The signature is written in a cursive, flowing style with some capitalization.

James H. Gillett, CPA
Acting Legislative Auditor

December 19, 1980

OFFICES OF THE GOVERNOR AND LIEUTENANT GOVERNOR

ALL FUNDS
COMBINED BALANCE SHEET
JUNE 30, 1980

	Governmental Fund Types		Fiduciary Fund Type		Account Group
	General Fund	Special Revenue	Trust & Agency	Federal & Private Grant Clearance Fund	
		Federal & Private Revenue Fund			
ASSETS					
Cash	\$ 600	\$ 69,202	\$80,824		
Federal Cost Reimbursement Receivable		175,485	479		
Accounts Receivable	1,030	42,811	1,828		
Notes Receivable		89,780			
Allowance for Uncollectibles		(89,780)			
Expense Advances for Employees	66				
Assets Available to Pay					
Accrued Expenditures and Accounts Payable	135,162				
General Fixed Assets - Office Equipment					\$258,495
Total Assets	<u>\$136,858</u>	<u>\$287,498</u>	<u>\$83,131</u>		<u>\$258,495</u>
LIABILITIES AND FUND BALANCE					
Accrued Expenditures & Withdrawals	\$135,162	\$216,012	\$72,020		
Payable to Consolidated Entity	1,696	67,280	9,603		
Receipts Collected in Advance		<u>\$283,292</u>	<u>\$81,623</u>		
Total Liabilities	<u>\$136,858</u>				
Investment in General Fixed Assets					\$258,495
Fund Balance	<u>-0-</u>	<u>4,206</u>	<u>1,508</u>		
Total Liabilities and Fund Balance	<u>\$136,858</u>	<u>\$287,498</u>	<u>\$83,131</u>		<u>\$258,495</u>

See accompanying Notes to Financial Statements.

Revenues:

Miscellaneous
Income Collections
Federal Assistance

Total Revenues

Expenditures:

Current:

Executive Office
Mansion Maintenance
Office of Budget &
Legal Jurisdiction
Office of Commerce
Development
Economic Development
Lieutenant Governor
Citizens' Advocate
Mental Disabilities
Executive Branch P

Total Expenditures

Excess of Current Re
(Under) Current Exp

Other Financing Sour
Prior Year Adjustme
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Net Support From (T
Fund

Excess of Revenues O
Expenditures and Ot

Fund Balance July 1,

Fund Balance June 30

See accompanying Not

OFFICES OF THE GOVERNOR AND LIEUTENANT GOVERNOR
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

ALL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	Governmental Fund Types						Special Revenue Fund		
	General Fund			Federal and Private Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Miscellaneous	\$ 600,000	\$ 2,448	\$(597,552)	\$ 4,228	\$ 1,812	\$ (2,416)	\$ 604,228	\$ 4,260	\$(599,968)
Income Collections & Transfers				197,479	97,838	(99,641)	197,479	97,838	(99,641)
Federal Assistance				865,216	963,121	97,905	865,216	963,121	97,905
Total Revenues	600,000	2,448	(597,552)	1,066,923	1,062,771	(4,152)	1,666,923	1,065,219	(601,704)
Expenditures:									
Current:									
Executive Office	633,673	617,700	15,973	44,771	33,209	11,562	678,444	650,909	27,535
Mansion Maintenance	53,735	52,374	1,361	25,500	25,500		79,235	77,874	1,361
Office of Budget & Program Planning	667,501	659,059	8,442	20,932	18,475	2,457	688,433	677,534	10,899
Legal Jurisdiction Project	150,000	118,079	31,921				150,000	118,079	31,921
Office of Commerce & Small Business Development	63,950	53,864	10,086	265,000	241,095	23,905	328,950	294,959	33,991
Economic Development	67,000	62,150	4,850	200,000	189,850	10,150	267,000	252,000	15,000
Lieutenant Governor	256,377	230,550	25,827	386,011	261,590	124,421	642,388	492,140	150,248
Citizens' Advocate	60,320	56,820	3,500				60,320	56,820	3,500
Mental Disabilities Board of Visitors	39,096	35,256	3,840				39,096	35,256	3,840
Executive Branch Pay Increases	418,736		418,736				418,736		418,736
Total Expenditures	2,410,388	1,885,852	524,536	942,214	769,719	172,495	3,352,602	2,655,571	697,031
Excess of Current Revenues Over (Under) Current Expenditures	(1,810,388)	(1,883,404)	(73,016)	124,709	293,052	168,343	(1,685,679)	(1,590,352)	95,327
Other Financing Sources (Uses):									
Prior Year Adjustments	39,070	39,070		98,926	98,926		137,996	137,996	
Antirecession Federal Assistance				(393,561)	(393,561)		(393,561)	(393,561)	
Net Support From (To) the General Fund	1,771,318	1,844,334	73,016				1,771,318	1,844,334	73,016
Excess of Revenues Over (Under) Expenditures and Other Sources (Uses)	0	0	0	(169,926)	(1,583)	168,343	(169,926)	(1,583)	168,343
Fund Balance July 1, 1978	0	0	0	(24,248)	(24,248)		(24,248)	(24,248)	
Fund Balance June 30, 1979	\$ 0	\$ 0	\$ 0	\$(194,174)	\$ (25,831)	\$168,343	\$ (194,174)	\$ (25,831)	\$ 168,343

See accompanying Notes to Financial Statements.

Revenues:

Miscellaneous
Income Collections
Federal Assistance

Total Revenues

Expenditures:

Current:

Executive Office
Mansion Maintenance
Office of Budget &
Legal Jurisdiction
Office of Commerce
Development
Economic Development
Lieutenant Governor
Citizens' Advocate
Mental Disabilities
Executive Branch

Total Expenditures

Excess of Current Revenues
(Under) Current Expenditures

Other Financing Sources
Prior Year Adjustments
Net Support From (To)
Fund

Excess of Revenues (Under)
Expenditures and Other

Fund Balance July 1,

Fund Balance June 30,

See accompanying Notes

OFFICES OF THE GOVERNOR AND LIEUTENANT GOVERNOR
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

ALL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	Governmental Fund Types						Special Revenue Fund		
	General Fund			Federal and Private Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Miscellaneous	\$ 100	\$ 89	\$ (11)	\$ 7,247	\$ 1,210	\$ (6,037)	\$ 7,347	\$ 1,299	\$ (6,048)
Income Collections & Transfers				36,824	34,620	(2,204)	36,824	34,620	(2,204)
Federal Assistance				557,292	492,444	(64,848)	557,292	492,444	(64,848)
Total Revenues	100	89	(11)	601,363	528,274	(73,089)	601,463	528,363	(73,100)
Expenditures:									
Current:									
Executive Office	739,776	730,634	9,142	24,270	10,531	13,739	764,046	741,165	22,881
Mansion Maintenance	81,778	70,481	11,297				81,778	70,481	11,297
Office of Budget & Program Planning	668,437	662,060	6,377	13,360	12,766	594	681,797	674,826	6,971
Legal Jurisdiction Project	115,820	64,821	50,999				115,820	64,821	50,999
Office of Commerce & Small Business Development	40,578	39,943	635	259,341	246,731	12,610	299,919	286,674	13,245
Economic Development	50,000	45,000	5,000	168,000	168,000		218,000	213,000	5,000
Lieutenant Governor	169,826	155,917	13,909	80,616	75,182	5,434	250,442	231,099	19,343
Citizens' Advocate	57,587	56,753	834				57,587	56,753	834
Mental Disabilities Board of Visitors	40,324	38,947	1,377				40,324	38,947	1,377
Executive Branch Pay Increases	56,678		56,678				56,678		56,678
Total Expenditures	2,020,804	1,864,556	156,248	545,587	513,210	32,377	2,566,391	2,377,766	188,625
Excess of Current Revenues Over (Under) Current Expenditures	(2,020,704)	(1,864,467)	156,237	55,776	15,064	(40,712)	(1,964,928)	(1,849,403)	115,525
Other Financing Sources (Uses):									
Prior Year Adjustments	69,986	69,986		14,973	14,973		84,959	84,959	
Net Support From (To) the General Fund	1,950,718	1,794,481	(156,237)				1,950,718	1,794,481	(156,237)
Excess of Revenues Over (Under) Expenditures and Other Sources (Uses)	0	0	0	70,749	30,037	(40,712)	70,749	30,037	(40,712)
Fund Balance July 1, 1979	0	0	0	(25,831)	(25,831)		(25,831)	(25,831)	
Fund Balance June 30, 1980	\$ 0	\$ 0	\$ 0	\$ 44,918	\$ 4,206	\$ (40,712)	\$ 44,918	\$ 4,206	\$ (40,712)

See accompanying Notes to Financial Statements.

OFFICES OF THE GOVERNOR AND LIEUTENANT GOVERNOR

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS).

Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when received in cash unless susceptible to accrual and expenditures are recorded when a valid obligation is incurred.

Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt.

Inventories

Supplies are treated as expenditures in the various funds when paid for; consequently, there is no recorded asset for supplies inventory.

General Fixed Assets and Depreciation

General fixed asset purchases are recorded as expenditures in the various funds at the time of purchase. Depreciation is not provided on general fixed assets.

Vacation and Sick Pay

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are recorded when paid. Permanent employees are allowed to accumulate and

carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying permanent employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with unused, accumulated vacation and sick leave at June 30, 1980, is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

2. RETIREMENT PLAN

The employees of the Offices of the Governor and Lieutenant Governor are covered by the Public Employees' Retirement System, a contributory plan under which the state contributes 6.2 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages. The department incurred pension costs of \$40,709 during fiscal year 1979 and \$43,481 during fiscal year 1980. The state's policy is to fund accrued pension costs. At June 30, 1980, the Public Employees' Retirement System was actuarially sound.

3. GENERAL FUND BALANCE

The state's General Fund beginning and ending fund balance on a nonconsolidated basis is zero, since any balance in the fund is owed to the consolidated entity at fiscal year-end.

4. CASH RESTATEMENT

To reflect the actual June 30 cash balance on the financial statements, the Department of Administration restated (increased) Cash in Treasury and Accounts Payable to reflect cash paid during

the fiscal year-end adjustment period. This procedure was not used during fiscal year 1977-78.

5. "NO PROGRAM" APPROPRIATIONS

The Governor's Office was appropriated funds to implement House Bill 891, Session Laws of 1979, which provided for state employee pay increases. The appropriations were made from the General Fund and from the Agency Fund; the Agency Fund was utilized because the distribution of the appropriation authority between other funds was not determined at the time the appropriation was recorded.

The appropriation authority was allocated as follows:

	<u>General Fund</u>	<u>Other Funds</u>
Fiscal Year 1979		
Amount Authorized	\$4,902,600	\$8,097,724
Allocated to State Agencies	4,483,864	6,960,087
Balance, June 30, 1979	<u>\$ 418,736</u>	<u>\$1,137,637</u>
Fiscal Year 1980		
Amount Authorized	\$4,509,410	\$5,981,022
Allocated to State Agencies	4,452,732	5,663,384
Balance, June 30, 1980	<u>\$ 56,678</u>	<u>\$ 317,638</u>

Unallocated portions of the General Fund and the Agency Fund appropriations reverted at each fiscal year end.

6. LEASES

The agency made payments of approximately \$25,300 in fiscal year 1979 and \$23,800 in fiscal year 1980 for leased equipment. Lease rentals are recorded as expenditures over the lease term as they become payable. Current commitments under lease agreements for equipment provide for the following minimum lease payments:

<u>Year</u>	<u>Operating Leases</u>	<u>Capital Leases</u>
1981	7,830	17,985
1982	7,830	15,165
1983	7,830	6,940
1984	7,830	-0-
1985	7,830	-0-

7. GENERAL FUND REVENUE ESTIMATE, FISCAL YEAR 1979

During fiscal year 1979, the Legislative Fiscal Analyst and the Governor's Office of Budget and Program Planning comprised a Revenue Estimation Committee. The Committee arrived at a consensus General Fund revenue estimate. To produce the agreed-upon total, the Office of Budget and Program Planning placed the reconciling total in the Governor's Office, rather than adjusting all individual estimates which comprised the consensus amount. The revenue was never anticipated to be collected by the Governor's Office.

8. CHANGE IN ACCOUNTING PRINCIPLE

The office changed the method of accounting for federal grant money from the cash basis in fiscal year 1977-78 to the modified accrual basis in fiscal year 1978-79 and subsequent years.

9. BUDGET BASIS

The offices utilize a fixed annual basis of budgeting. Under the fixed annual method, appropriations of specific dollar amount are set for each fiscal year of a biennium by the legislature. Appropriations control the offices' financial operations during each fiscal year. At the end of each year the offices' General Fund appropriation is reverted to the General Fund. The reverted

appropriation may be used in the subsequent year as authorization for valid prior year obligations.

If the Governor determines that due to an unforeseen and unanticipated emergency, the amount actually appropriated for the first fiscal year of a biennium is insufficient for the operation and maintenance of the office, he may authorize expenditures during the first fiscal year of the biennium to be made from the appropriation for the second year.

10. ADJUSTMENTS TO FINANCIAL STATEMENTS

Adjustments have been made to the financial statements from amounts reported on SBAS. These adjustments were made to eliminate the effect of transfers between divisions within the same agency.

OFFICES OF THE GOVERNOR AND LIEUTENANT GOVERNOR
 SCHEDULE OF FEDERAL GRANTS
 Two Fiscal Years Ended June 30, 1980

<u>Grant Title</u>	<u>Amount</u>	<u>Grant Period</u>
<u>GOVERNOR'S OFFICE</u>		
Old West Regional Commission Balance Growth Study #10871230	\$25,000	6-1-78 to 6-30-79
National Endowment for the Humanities Montana Committee for the Humanities/ Conference on Families Planning Grant	\$3,497	7-1-78 to 10-15-78
National Endowment for the Humanities Montana Committee for the Humanities/ Conference on Families	\$12,291	9-9-78 to 11-20-78
Old West Regional Commission Inter- national Year of the Child Grant #10971185	\$5,000	5-1-79 to 4-30-80
Old West Regional Commission Coal Transportation Study (Entire Grant subcontracted to National Governors' Association) #10971256	\$20,000	9-21-79 to 9-20-80
<u>OFFICE OF BUDGET AND PROGRAM PLANNING</u>		
CETA Contract - PSE 329-9-2755	\$8,741	7-10-78 to 7-6-79
HEW Services to Handicapped Grant #180-78-C-0006	\$2,500	9-1-78 to 8-31-79
Farmers Home Administration Grant (Grant subcontracted with Dept. of Community Affairs) MT-A-0275	\$50,000	9-5-78 to 12-31-79
<u>OFFICE OF COMMERCE AND SMALL BUSINESS DEVELOPMENT</u>		
EDA Section 302(a) Planning Grant	\$130,000/yr.	10-1 to 9-30 (continuing grant)
Old West Regional Commission Public Investment Plan #10871256	\$280,000	7-1-78 to 6-30-80

<u>Grant Title</u>	<u>Amount</u>	<u>Grant Period</u>
<u>OFFICE OF COMMERCE AND SMALL BUSINESS</u>		
<u>DEVELOPMENT (con't)</u>		
EDA 304 Grants and Loans	\$150,000	Federal fiscal year (continuing)
EDA 304 Center for Innovation	\$369,800	10-1-77 to 9-20-79
Old West Regional Commission Technical Assistance Grants (Four overlapping grants)		
1. 10670253	\$313,581	6-25-76 to 10-31-78
2. 10871003	\$300,000	10-3-77 to 9-30-79
3. 10971106	\$187,500	12-1-78 to 11-30-79
4. 10072160	\$198,000	4-1-80 to 3-31-81
<u>LIEUTENANT GOVERNOR'S OFFICE</u>		
Old West Regional Commission Analysis of Foreign Beef Markets #10776184	\$142,560	8-15-77 to 9-30-79
National Science Foundation SSET Program #ISP78-01355	\$25,000	3-1-78 to 8-31-79
Environmental Protection Agency Poplar River Project (This project is wholly subcontracted to other state agencies - administrative control resides in this office and funds are disbursed through here)	\$296,925	1-1-78 to 12-31-79
Northern Powder River Basin Regional Environmental Impact Statement Project (This program operated on two federal grants and several con- tracts with the Department of State Lands for "site-specific" EIS's.)		
NPRBEIS Old West Regional Commission Grant #10770033	\$293,000	10-29-76 to 6-30-79
NPRBEIS U.S. Geological Survey Coopera- tive Agreement	\$75,000	7-1-78 to 6-30-79 (approximately)

OFFICES OF THE GOVERNOR AND LIEUTENANT GOVERNOR
SCHEDULE OF QUESTIONED COSTS
For the Two Fiscal Years Ended June 30, 1980

<u>Grant Name</u>	<u>Questioned Costs</u>
Old West Regional Commission Public Investment Plan	\$53,256
Environmental Protection Agency Poplar River Project	1,505
Economic Development Administration EDA 302(a) Planning Grant	<u>3,072</u>
	<u>\$57,833</u>

See pages 7 - 8 for explanations.

AGENCY REPLIES



State of Montana
Office of the Governor
Helena 59620

TED SCHWINDEN
GOVERNOR

April 10, 1981

Mr. James H. Gillett, C.P.A.
Acting Legislative Auditor
Office of the Legislative Auditor
Capitol Post Office
Helena, Montana 59620

RECEIVED

APR 10 1981

MONTANA LEGISLATIVE AUDITOR

Dear Mr. Gillette:

Attached are our responses to the recommendations contained in the
audit of the Offices of the Governor and the Lieutenant Governor.

Sincerely,

Keith L. Colbo

KEITH L. COLBO
Executive Assistant

RECOMMENDATION: We recommend that the Governor's Office include Circular A-102, Attachment P, audit requirements in agreements with subgrantees.

RESPONSE: We concur with the recommendation. The applicable portions of OMB Circular A-102 will be included in all federally funded subcontracts with state and local government subdivisions.

RECOMMENDATION: We recommend that the Governor's Office comply with grant reporting requirements.

RESPONSE: We concur with the recommendation and will comply.

RECOMMENDATION: We recommend that the Governor's Office obtain clarification from the federal grantor agency concerning the allowability of personal services expenditures charged to the Public Investment Plan Grant.

RESPONSE: Following a federal audit of the Old West Regional Commission Public Investment Plan Grant, the Governor's Office responded to the Commission on costs questioned as a result of that audit. The response was dated August, 1978; the Commission has not yet made a final determination on the questioned costs. We will continue to seek clarification from the Old West Regional Commission concerning the allowability of these questioned costs.

RECOMMENDATION: We recommend that the Governor's Office work with subgrantees to ensure that adequate documentation of the allowability of costs charged to grants is maintained.

RESPONSE: We concur that adequate documentation of the allowability of grant costs is of the utmost importance; and we will work on a more comprehensive reporting system for subgrantees, which will include more detailed financial reporting. However, the Governor's Office does not have internal audit capabilities and must rely on outside audits to disclose subgrantee noncompliance with grant terms.

RECOMMENDATION: We recommend that the Governor's Office seek continuing appropriations for loan program funds.

RESPONSE: As the Legislative Auditor has noted, there were some technical difficulties in recording the loan program transactions on SBAS. The funds were appropriated by legislative action; moneys involved were both federal and state general fund. An expenditure must be recorded in SBAS to affect the appropriation control ledgers and to reflect the program's activity in management-oriented SBAS reports.

Loan repayments were recorded as revenue because these funds are not repaid to the primary lending agency -- the federal government. The repayments are deposited to the State Treasury in a federal and private revenue fund and become available for reappropriation for the operations of state government.

We concur with the Legislative Auditor's recommendation that obtaining continuing appropriations for loan program funds would alleviate some of the difficulties we encountered in administering the EDA 304 loan program. However, the loan program funds are not included in the Governor's Office budget for the 1983 biennium.

RECOMMENDATION: We recommend that the Governor's Office a) implement procedures to assure timely collection of and maintain adequate control over notes receivable and b) develop procedures for determining the collectibility of receivables and write off and transfer to the Department of Revenue the the uncollectible accounts.

RESPONSE: We concur with the recommendation. This office has determined that we are not in a position to adequately service the loans, and that we must find other mechanisms for administering their collection. Of the three loans presently outstanding, two are in a current status and we will soon take action to have a financial institution in the area service and collect the loans. The third loan is in default and this office is in the process of taking action to make recovery.

RECOMMENDATION: We recommend that the Governor's Office review and evaluate the necessity of restating cash transactions made during the fiscal year end adjustment period.

RESPONSE: We concur with the recommendation. We understand that this process will be automated by the Accounting Division, Department of Administration, beginning with the Fiscal Year 1981 year-end adjustment period.

RECOMMENDATION: We recommend that the Governor's Office record the Mansion on its fixed asset records.

RESPONSE: The Governor's Mansion is currently recorded on the fixed asset records of the Department of Administration. We will work with Department of Administration personnel to insure that the Mansion is properly recorded, consistent with treatment of other state-owned buildings.

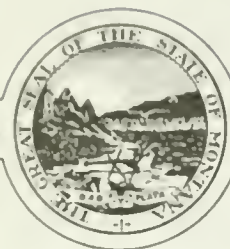
RECOMMENDATION: We recommend that the Governor's Office complete the conversion to PAMS.

RESPONSE: We concur with the recommendation. Work is already in progress to complete the conversion and reconcile PAMS and the Governor's Office internal inventory system.

RECOMMENDATION: We recommend that the Governor's Office work with the Department of Administration to record lease purchases in accordance with generally accepted accounting principles.

RESPONSE: We concur with the recommendation and will adjust our fixed asset records when new guidelines on lease purchase recordation are published by the Department of Administration.

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



TED SCHWINDEN GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 449-2032

HELENA, MONTANA 59620

April 14, 1981

James Gillett, Acting Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

RECEIVED

APR 14 1981

MONTANA LEGISLATIVE AUDITOR

Dear Jim:

In accordance with your request, we submit the following response to the recommendations included in the audit of the Governor's Office that apply to the Department of Administration.

Recommendation #4B:

We recommend that the Department of Administration develop appropriation control of asset accounts on SBAS.

Response:

We concur that the loan in question should be accounted for as an asset rather than an expenditure. However, because this type transaction is rare to governmental funds, we are reviewing whether an adjustment should be made to SBAS or it could be best controlled manually.

Recommendation #8C:

We recommend that the Department of Administration revise the PAMS regulations and instruct agencies to record lease-purchases in accordance with GAAP.

Response:

We plan to update the PAMS chapter during FY 1982 with a number of items, one of which will be proper lease-purchase and installment purchase procedures that will conform with GAAP.

Sincerely,

A handwritten signature in cursive script, appearing to read "Morris".

Morris L. Brusett
Director

MB/TC/jk

